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SUBJECT: HIGH PRICES CAUSE CONCERN IN YEMEN

REF: 2006 SANAA 2070

Classified By: CDA Angie Bryan for reasons 1.4 (b) and (d)

¶1. (C) SUMMARY: Prices of basic consumer goods in Yemen have risen in real terms by at least 100 percent since the September 2006 Presidential Election. Inflation has worsened the already abysmal poverty rate and has led to the bankruptcy of at least 2,400 businesses. The Republic of Yemen Government and experts from the Yemeni Association for Consumer Protection and the Chamber of Commerce have differing opinions as to the root causes of the persistent price increase, but the overall consensus blames the lack of competition in basic goods. In an attempt to curb inflation, the ROYG has imposed price controls, but many observers believe that this will not work. Short-term solutions will be hard to find, but a more sustainable option is increased market infrastructure, economic development and competition in the marketplace. END SUMMARY

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ASTRONOMICAL RISE IN PRICES  
SINCE SEPTEMBER 2006  
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¶2. (U) Since the September 2006 Presidential Elections, prices have risen dramatically in Yemen. Prices of basic commodities, including wheat, flour, rice, cooking oil, milk, and meat have risen at least 30 percent. The price of wheat, a major determinant of other commodity prices, increased by 54 percent. Cement recorded the largest price increase. In July 2006 the cost for a 50-kg bag of cement was 700 Yemeni Riyals. By May 2007, a 50-kg bag of cement cost 1,800 Yemeni Riyals, an increase of 157 percent.

¶3. (C) What distinguishes the recent price increases from previous years is their pervasive and continuous nature. In the past, there have been specific price increases of specific goods during specific time periods. According to the Deputy Chairman of the Yemeni Association for Consumer Protection, Fadhl Mansour, over the past few years there have been two or three sporadic small increases in prices, but in 2007, there has been a single, uninterrupted large increase in prices across the board. Mansour stated that after the April 2007 ROYG Cabinet reshuffle, prices increased dramatically. A new wave of price increases occurred again in May 2007 after the National Food Council met to find ways of reining in the soaring prices. Mansour opined that in real terms, prices have risen by at least 100 percent.

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POVERTY IN YEMEN DEEPENS  
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¶4. (C) The impact on Yemeni consumers has been devastating. In 2006, per capita GDP in Yemen was approximately 720 dollars, one of the lowest figures in the MENA (reftel). According to a May 2007 field study published by the Yemeni Association for Consumer Protection, the recent price

increases have eroded average Yemeni purchasing power even further and are a serious blow to the average standard of living in Yemen. The value of the Yemeni Riyal to the U.S. Dollar has also fallen from YR 195/USD 1 in September 2006 to YR 199/USD 1 in July 2007. Most consumers are purchasing 40 percent fewer goods as a result of inflation. In Sanaa, 40 percent of families can hardly afford to buy meat, chicken or seafood even once a week. Poverty rates in rural areas are increasing day-by-day and in some areas 80 percent of the population lives in poverty. Rising prices have also hit businesses hard. The Director of the Sanaa Chamber of Commerce and Industry, Mahfoodh Salem Shammakh, reported to Econoff that since the September 2006 Presidential elections, 2,400 businesses have gone bankrupt because of lower sales. Mansour pointed out that merchants are importing lower quality goods and selling them on the market.

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TERRORISM FEEDS ON HUNGER  
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15. (C) According to UNICEF's annual journal, more than 50 percent of children under the age of 5 are moderately to severely malnourished in Yemen (reftel). Scholars believe that price inflation and falling incomes will lead to a broad famine within Yemen, accompanied by many social problems. Yemen has a very limited safety net. The Social Fund for Development distributes welfare checks to only the "poorest of the poor" and these checks are only for USD 12 per month. Mansour noted that inflation has adversely impacted the health and development process of Yemeni citizens and that there has been a sharp rise in the number of crimes, including robberies, counterfeiting and fraud. The Chairman of the Yemen International Food Industries Company (YIFCO), Yahya al-Habari, a major wheat trader, said that the poverty is particularly acute in the countryside, especially in Shabwa, Abyan and Sa'ada, and people there are increasingly desperate for jobs. Habari stated that "if somebody offers them USD 100 to fight, they will fight." These areas are beset by tribal violence exacerbated by a lack of government services.

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WHAT IS TO BLAME FOR  
THE PRICE INCREASES?  
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16. (C) Interpretations differ about what is to blame for the price increases. The ROYG Ministry of Industry and Trade (MOIT) attributes the price inflation to the general rise of prices worldwide. Yemen imports most of its food. According to the Director of the MOIT Domestic Trade Administration, Muhammed Faragi, 70 percent of Yemen's wheat comes from the United States, and another 15 percent comes from Australia, India, Ukraine, and Saudi Arabia. Faragi indicated that wheat and oil prices have gone up and rice production in India and Pakistan has dropped. YIFCO Chairman Yahya al-Habari backed this interpretation in a July 1 meeting with Econoff, stating that whereas in January 2007 wheat cost USD 185 per metric ton, in July 2007, the price shot up to USD 325 per metric ton. Habari added that in June 2007 his company could not afford a shipment of U.S. wheat, because the cost increased by 15-20 percent from the previous contract.

17. (C) Mansour refuted this claim that the global marketplace is to blame for inflation, stating that prices have risen globally only on some commodities, while the prices of all commodities in Yemen have gone up. He believes that a more credible explanation is that there is a lack of competition in the supply of basic goods in Yemen. The variety of brands is limited and the Yemeni consumer is therefore unable to compare the prices of two different brands of flour, for example, and choose the cheapest. Most basic consumer goods found in the rural areas are of low quality. Habari explained that even though there are less expensive brands of wheat in the world marketplace, Yemenis prefer to purchase the more expensive U.S. wheat, and

lamented that "People in Yemen can die of hunger, but still want a brand." The lack of variety in consumer goods, such as wheat, is compounded by the fact that production is down in many countries, including Pakistan, Ukraine, Russia and Canada. According to Habari, Pakistan will not export any wheat to Yemen due to a current wheat shortage in Pakistan.

¶18. (C) Mansour told Econoff that in Yemen only six traders and merchants deal with basic commodities, such as wheat, flour, sugar and rice and that there are only four-to-five producers of cooking oil. For example, Habari has a monopoly over the wheat and flour supply in Yemen and President Saleh has a share in this company. There is also a monopoly on the transportation system. Habari accused the ROYG-owned Yemen Economic Corporation (YECO), another major trader in commodities, of recently selling 45,000 tons of subsidized wheat on the black market at a high price. The MOIT, Chamber of Commerce and Industry and academics support the view that there is a lack of competition. In a June 17 meeting with the former DCM, the ROYG Minister of Industry and Trade, Yahya al-Mutawakel, stated that "the real issue is monopoly and that Yemen imports a lot of its wheat and flour from the United States." The Minister observed in a later meeting with the Ambassador on June 23 that "Yemen does not have perfect competition or instruments to alleviate the phenomenon of an oligarchy of very powerful families, who control the trade of basic commodities." Mutawakel stated that creating more competition in Yemen will be a long-term process because of a lack of infrastructure, including grain storage silos.

¶19. (C) Shammakh offered another explanation for the price increases, citing a "long train" of high operational costs, which businesses then pass on to the consumer. He said these include increased freight rates because of high oil prices, an increase in insurance premiums for commodities, higher transport and shipping and handling charges, higher water and electricity bills, and an increase in the General Sales Tax by 10 percent. He added that "If I used to pay a worker YR 600, now I have to pay him or her YR 1,000."

¶10. (C) The Yemeni Association for Consumer Protection holds both the ROYG and the traders responsible for the price increases. According to Mansour, while merchants and traders are raising their prices at capricious rates, sometimes at 50 percent, other times at 200 percent, the ROYG is doing nothing about it. Shammakh cited one case in which the ROYG allowed 30,000 bags of wheat flour to rot in a warehouse. Mansour questioned why the MOIT withdrew a draft Consumer Protection Law (submitted by the Association in 2006) from Parliament in May 2007. He added that the ROYG has not raised the salaries of its employees to keep up with inflation. He opined that "in Yemen, if you are a big investor, the government is on your side." Many observers believe that corruption is still rampant in the basic commodity sector, at the expense of the Yemeni consumer.

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ATTEMPTS TO CURB INFLATION  
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¶11. (C) In order to control skyrocketing prices, the ROYG has established a joint public-private sector National Food Council, headed by the Deputy Prime Minister for Economic Affairs, Abdul-Karim al-Arhabi, which met in May 2007. The MOIT plans to establish a strategic stock of basic commodities to cover the needs of the people in case of a global price increase. Faragi said that in June 2007, the ROYG purchased a 3-month supply of wheat from the United States. MOIT Minister al-Mutawakel told the former DCM that the ROYG is seeking other storage facilities in the United Arab Emirates in order to import additional quantities into Yemen. Four silos of wheat are in operation and another two are under construction. According to press reports on May 7, the ROYG had ordered the importation of cement and the opening of new stores for direct sale of cement to lower the cost. The Central Bank flooded the market with currency three

times in May and June 2007 in order to stabilize the exchange rate

¶12. (U) The MOIT also imposed price ceilings in late May 2007 on basic goods in order to return prices to their December 15, 2006 levels. The MOIT has published these price list declarations in newspapers. In order to enforce these price ceilings, MOIT told media that it has deployed field inspection units in marketplaces throughout Yemen. Violators of these price ceilings are subject to judicial penalties. Faragi stated that the inspection units consisted of 45-50 people and that the MOIT is currently soliciting nominations from governorates for more field inspectors. He noted that if businessmen are caught violating price declarations, they are first sent a warning. Faragi added that businessmen in general have been cooperating with the ROYG in honoring the price declarations. The media reported on June 13 that the MOIT has referred 150 cases of price increase violations and product fraud for prosecution.

¶13. (C) On the other hand, according to a recent report issued by the Yemeni Association for Consumer Protection, there has been no commitment by traders to keep prices down or obey the price declarations. Shammakh warned that if the ROYG imposes price controls on the market, basic commodities would disappear from store shelves or rise by at least another 50 percent. Several newspaper articles were skeptical of the impact price controls would have. In a May 26 article in the "Yemen Observer," Abdul-Aleem al-Hashemi remarked, "Thus far, nothing has stopped the juggernaut of persistent price increases- not firm government statements, nor orders issued by the various ministries." In a June 23 meeting with the Minister of Industry and Trade, Ambassador Krajewski opined that price controls would not work and would create black markets, citing the United States' experience with price controls in the 1970's.

¶14. (C) While price ceilings may not be the answer to persistent inflation woes in Yemen, experts have offered other solutions. For example, Fadhl Mansour of the Yemeni Association for Consumer Protection proposes that the ROYG print out price labels for basic goods and place them directly on the products instead of publishing price list declarations in newspapers. He believes this would give consumers a chance to compare prices. He advocates getting Yemenis involved in the economic development process, which would raise their incomes during times of global inflation. COC Director Shammakh argues that the ROYG should have 30 silos of wheat available inside major cities like Sanaa, Taiz and Dhamar. He added that the Central Bank could also give merchants a loan of USD 1 billion to import an additional six month supply of basic goods, which they would have to sell right away, thus lowering prices. According to Shammakh, the best way to raise incomes is to develop small-scale cottage industries inside Yemen.

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NO QUICK SOLUTIONS  
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¶15. (C) COMMENT: Despite the ROYG's contention, the overall consensus is that price controls will not solve the current crisis of inflation. In the short-run, the ROYG will be hard pressed to find a quick remedy to persistent price increases. Dramatic price increases have sometimes led to violent reactions, as was the case during the July 2005 fuel price hike riots. There may be light at the end of the tunnel, however: since June 2007, wheat prices have fallen in the United States and this may reduce wheat prices in Yemen. In a June 23 meeting with Econoff, the MOIT stressed that prices are finally beginning to stabilize. A long-term strategy may hinge on increasing competition in basic commodities and breaking monopolies in the sector. Sustainable economic development, which creates more infrastructure and jobs, may be the key to boosting the national income of Yemen and stabilizing a precarious security situation in the face of rising prices. END COMMENT.

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